

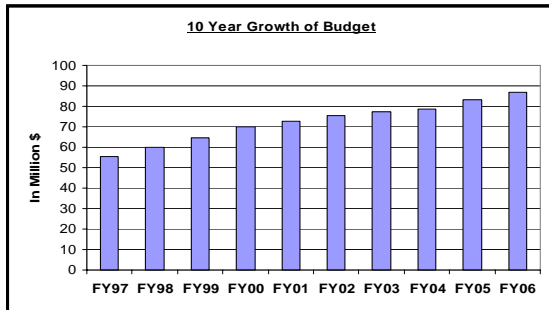
Executive Budget Summary

City of Leominster

Introduction

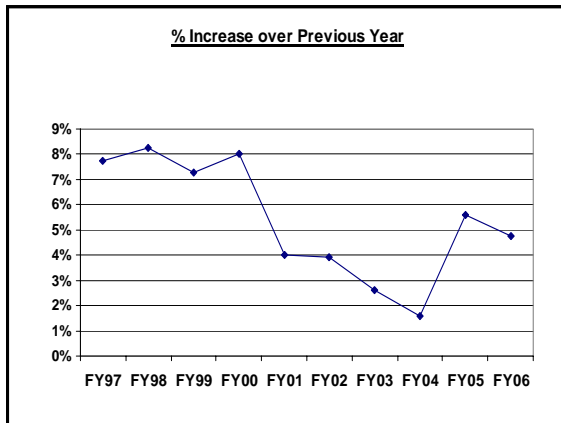
The Fiscal Year 2006 General Fund Budget total of \$87,001,979 represents a 4.75 % increase over the Fiscal Year 2005 Budget total of \$83,056,154.

Budget Chart 1



The 4.75% budget increase was possible because of increased State Aid amounts.

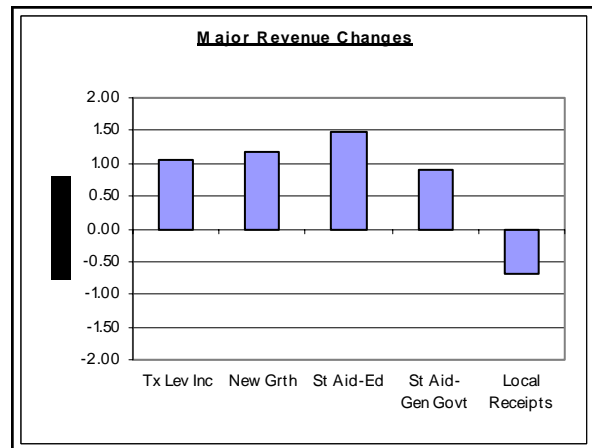
Budget Chart 2



The major changes in revenue sources from FY05 to FY06 were Certified New Tax Growth, Proposition 2 1/2 tax increases, State Aid-Education and State Aid-General Government. Local Receipts had a significant reduction because the City did not receive additional Lottery pro-

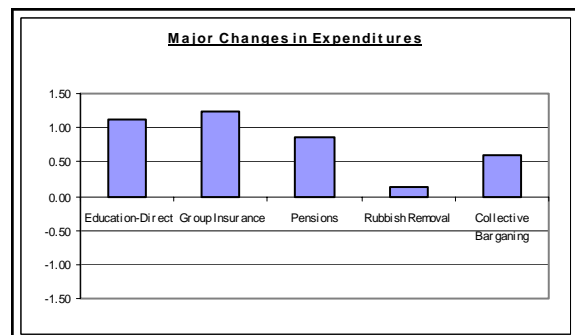
ceeds to appropriate as it had in FY 2005 prior to the setting of the FY 2005 tax rate. Recurring Local Receipt projections remain flat.

Budget Chart 3



The expenditure side of the FY06 Budget also saw many changes. Collective Bargaining agreements were finalized with all City side unions for periods through the end of FY06. Group Insurance and Pension System appropriations continue to put significant cost pressure on the City. A new Government Account Standards Board (GASB) requirement which will require the City to calculate its unfunded Other Post Employment Benefits (OPEB) actuarial liability will force the City to acknowledge a significant budgetary obligation that has been previously ignored. During FY06 the City plans to complete its OPEB study.

Budget Chart 4



Executive Budget

Summary continued

City of Leominster

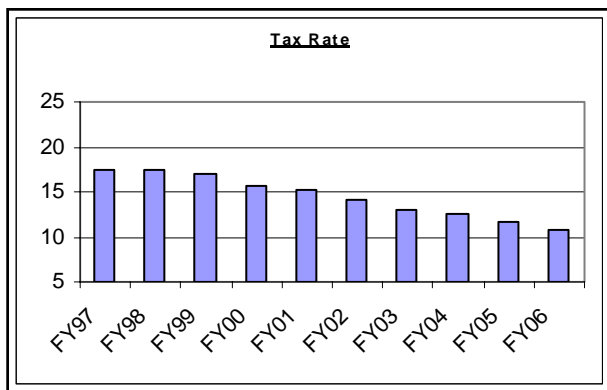
The Net School Spending Requirement increased by over \$2,293,391 in FY 2006. This is due to the \$1,384,917 increase in the Chapter 70 line item along with the \$900,384 local contribution required increase as dictated by the municipal revenue growth factor calculation made by the State for FY 2006.

The cost of other Insurances, such as medical insurance for employees as well as Worker's Compensation and Property/Liability Insurances continue to have upward cost pressure due to both upward market price spikes and increased salary and wages for municipal employees.

Tax Base Information

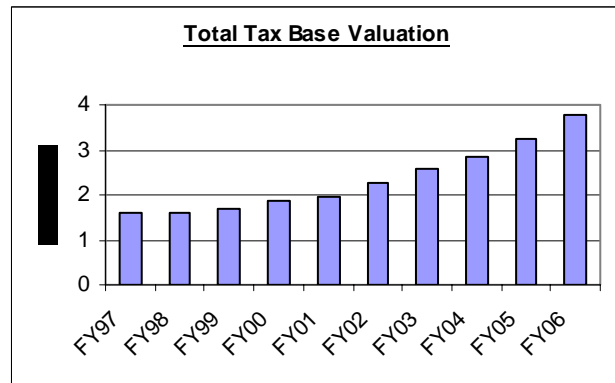
The Total Assessed Valuation of the City has risen at a pace equal to or greater than the Tax Levy during the past 10 years. This had led to a stable or declining tax rate during this time period.

Budget Chart 5



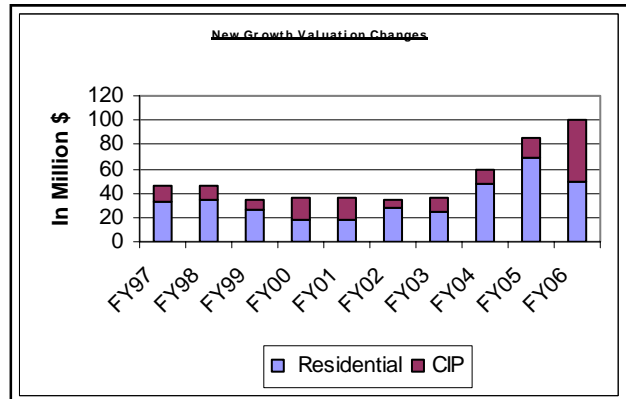
The Total Assessed Valuation for the City has reached \$ 3,756,035,400 for Fiscal Year 2006. This represents a 133.0 % increase over the Fiscal Year 1996 Total Assessed Valuation of \$1,612,025,575.

Budget Chart 6



The \$2,144,009,625 increase in valuation during this 10 year period includes Certified New Growth valuations of \$541,501,626.

Budget Chart 7



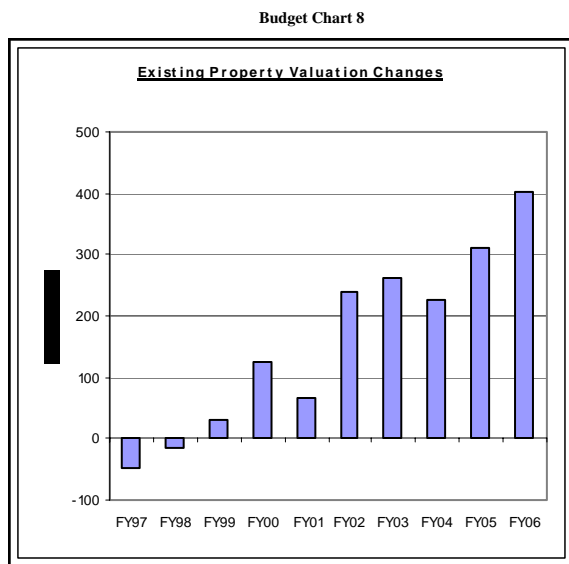
Executive Budget

Summary Continued

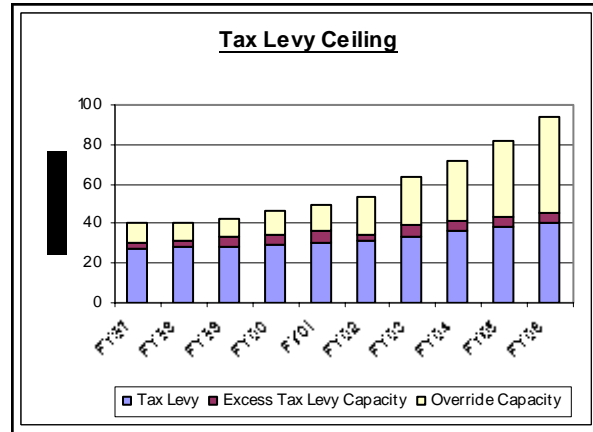
City of Leominster

Existing property valuation net changes amounted to over \$ 400,545,800 during FY 2006.

Budget Chart 9

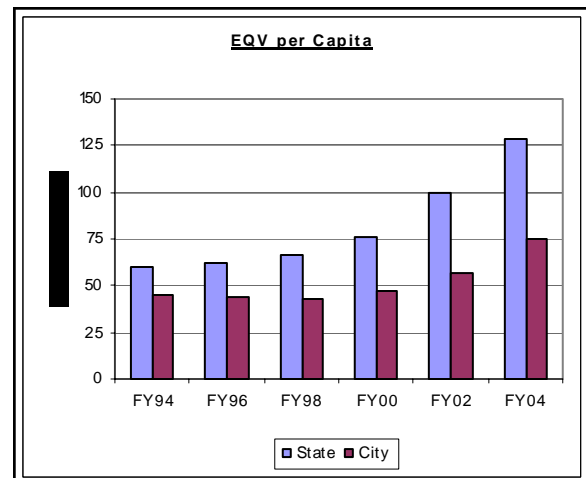


This overall Net Valuation net increase has served to raise the City of Leominster ultimate levy ceiling to \$93,900,885 in FY 2006. The ultimate levy ceiling is the maximum amount that the City of Leominster could raise through the tax levy in that particular year. This amount is equal to the so called, "Proposition 2 1/2 Limit". The formula to arrive at this levy ceiling amount is Total Assessed Valuation x 2.5%. This increase in valuation has resulted in the City having \$48,212,304 in current override capacity in FY 2006.



Although the Equalized Valuation per Capita (EQV per Capita) has risen for the past few years, the City still trails the State-Wide EQV per Capita average by a significant margin through FY 2004. The figures for FY 2004 indicate that the Leominster EQV per Capita of \$74,198 equates to 57.9% of the State-Wide EQV per Capita average of \$128,116.

Budget Chart 10



Executive Budget

Summary Continued

City of Leominster

Revenues

The reliance on State Aid for funding for the budget has been decreasing in the past few years. Once the City reached foundation budget requirements, Chapter 70 State Aid increases dropped significantly. Relative percentages for Tax Levy, State Aid, and Local Receipts are listed below.

Budget table 1

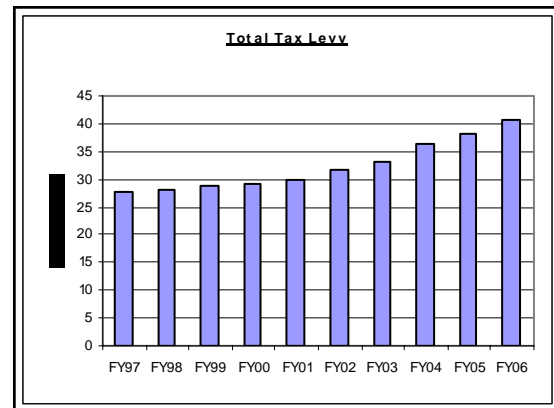
| | '97 | '98 | '99 | '00 | '01 | '02 | '03 | '04 | '05 | '06 |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Tax Levy % | 50 | 47 | 44 | 42 | 41 | 42 | 43 | 46 | 46 | 47 |
| State Aid % | 43 | 45 | 48 | 50 | 51 | 50 | 48 | 47 | 46 | 47 |
| Local Receipts % | 7 | 8 | 8 | 8 | 8 | 8 | 9 | 7 | 8 | 6 |

Revenue Source by %

Property Tax Levy

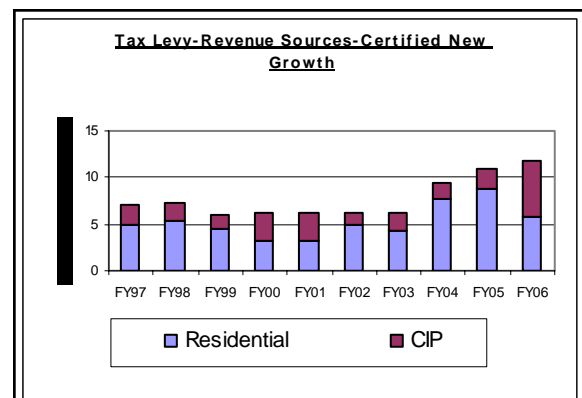
The Property Tax Levy is the City's second largest source of revenue. In FY 2006, the Property Tax Levy is \$40,527,122. This represents a 5.85 % increase over the FY 2005 Property Tax Levy of \$38,287,600. A single Proposition 2 1/2 increase in FY06 yields additional tax revenue of \$1,085,747. The amount of new growth value certified by the Department of Revenue was \$99,741,300 translated into an additional \$1,172,959 that could be raised in the tax levy.

Budget Chart 11



Since FY 1996, the property tax levy has grown from \$27,984,768 to \$40,527,622 for a total increase of \$12,542,854. New Growth has been certified for a total of \$7,786,748 during this period. This is equal to more than 62 % of the total levy increase during this ten year time period. Of the Certified New Growth, \$5,356,561 was residential certified new growth, while \$2,430,146 was commercial, industrial, and personal property new growth (CIP). CIP growth during FY06 was \$594,820 compared to \$578,139 residential new growth. This marks the first year in the past decade where CIP Growth surpassed Residential Growth.

Budget Chart 12



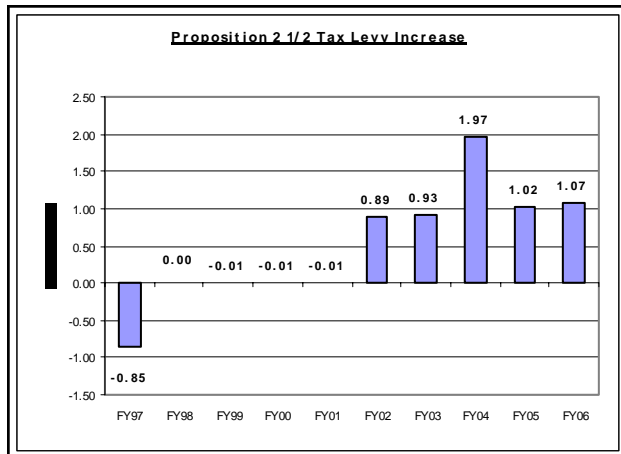
Executive Budget

Summary Continued

City of Leominster

The Proposition 2 1/2 total tax increase during this 10 year period was \$ 4,756,106. This represents under 38% of the total tax levy increase during the past 10 years.

Budget Chart 13



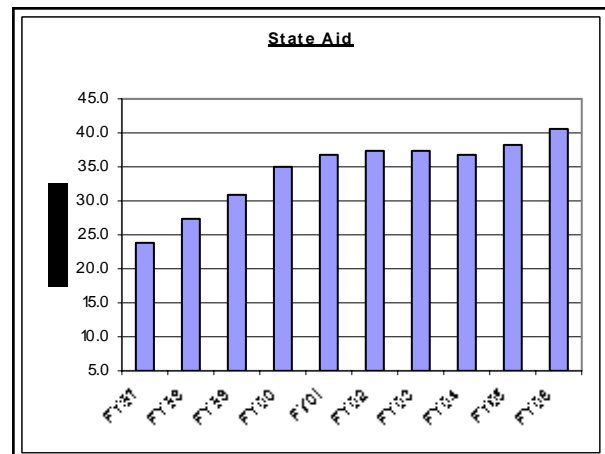
The underutilization of the allowed full Proposition 2 1/2 tax increases over the past 10 years has placed the City in the position of having \$5,160,959 in Excess Levy Capacity in FY 2006. The cumulative total of tax capacity not levied since FY 1996 totaled \$49,443,617(see Budget Chart 19).

The actual annual Proposition 2 1/2 increase was, on average, 1.4 % per year. The annual levy ceiling is allowed to increase 2.5% per year.

State Aid and Revenue Summary

After having to withstand over \$4 million in cumulative State Aid cuts over the previous four years, State Aid was increased for FY 2006 in most categories. Still gone, however, are School Transportation (\$370,135) and Highway Fund (\$340,000) reimbursement line items.

Budget Chart 14



State Aid - Education

The growth over the last 10 years in the Chapter 70 line item on the "Cherry Sheet" is mainly due to the commitment by the State to assist less wealthy communities in reaching Foundation Budget levels. The \$32,722,786 Chapter 70 award for FY 2006 reflects a \$1,384,917 increase over the FY 2005 award of \$31,337,869.

Executive Budget

Summary Continued

City of Leominster

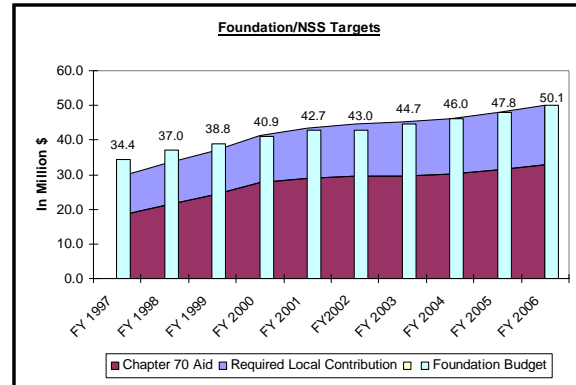
Budget Table 2

| Fiscal Year | '97 | '98 | '99 | '00 | '01 | '02 | '03 | '04 | '05 | '06 |
|---------------------|------|------|------|------|------|------|------|------|------|------|
| Chapter 70 | 18.1 | 21.0 | 24.1 | 27.8 | 28.9 | 29.5 | 29.5 | 30.0 | 31.3 | 32.7 |
| School Transp | .41 | .41 | .44 | .41 | .40 | .39 | .37 | 0 | 0 | 0 |
| School Constr | 1.51 | 1.51 | 1.51 | 1.51 | 1.51 | 1.51 | 1.51 | 1.50 | 1.51 | 1.73 |
| Charter School | - | - | - | - | - | - | - | - | .27 | .15 |
| Total Education Aid | 20.1 | 23.0 | 26.0 | 29.8 | 30.9 | 31.4 | 31.4 | 31.6 | 33.1 | 34.6 |

In Million \$

In Addition to Ch. 70 Awards, the State requires the City to increase their local contribution in accordance with a Municipal Revenue Growth Factor (MGRF) formula. This MGRF formula results in a significant percentage of local revenue growth being earmarked for School related expenditure purposes. The growth in the amount of Chapter 70 Aid and the required local contribution to meet Net School Spending (NSS) can be seen in the following chart.

Budget Chart 15



In addition to NSS requirements, there are cost centers such as debt service, transportation and capital outlay expenses which are not included in the spending calculations. The City issued permanent bonds in November 2002 equal to approximately 31% of the cost of the Sky View Middle School Project (\$7,500,000). The city received 75% of State estimated share of the Sky View Project (\$12,425,426) in May 2005 and hopes to receive the remaining 25% in May 2006. The City used \$175,000 in "Free Cash" during FY 2006 to pay for temporary interest on the State's share of the project.

The State eliminated the school transportation reimbursement line item while the City has increased its appropriation.

Executive Budget

Summary Continued

City of Leominster

State Aid-General Government

The total State Aid-General Government the City is estimated to receive in FY 2006 in this section of the "Cherry Sheet" is \$896,668 over the FY 2005 total amount of \$5,126,745.

Budget Table 3

| Gen Government | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 | FY 03 | FY04 | FY05 | FY06 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Lottery | 3,341,374 | 3,774,772 | 4,176,359 | 4,741,974 | 5,226,377 | 5,623,305 | 5,623,305 | 4,779,809 | 4,779,809 | 5,633,456 |
| Additional Assistance | 14,714 | 14,714 | 14,714 | 14,714 | 14,714 | 14,714 | 13,756 | 11,693 | 11,693 | 11,693 |
| Highway Fund | 340,693 | 340,693 | 340,693 | 340,693 | 340,693 | 85,173 | 0 | 0 | 0 | 0 |
| Police Incentive | 33,355 | 44,098 | 40,679 | 36,621 | 39,314 | 40,168 | 93,179 | 135,209 | 154,288 | 163,770 |
| Veteran's Benefits | 34,182 | 26,182 | 40,325 | 42,281 | 32,815 | 21,759 | 51,618 | 32,212 | 27,428 | 45,792 |
| Exemptions Elderly | 24,986 | 50,497 | 48,632 | 50,198 | 49,771 | 49,415 | 52,217 | 53,178 | 51,049 | 55,547 |
| Abateements | 62,598 | 63,375 | 63,408 | 63,376 | 63,354 | 61,565 | 58,685 | 62,372 | 63,354 | 63,332 |
| State Owned Land | 26,858 | 33,887 | 40,369 | 50,147 | 60,486 | 47,010 | 31,232 | 25,003 | 39,124 | 49,823 |
| | | | | | | | | | | |
| Total State Aid Gen Government | 3,878,760 | 4,318,168 | 4,765,179 | 5,340,004 | 5,827,524 | 5,943,109 | 5,923,992 | 5,099,476 | 5,126,745 | 6,023,413 |

The FY 2006 Lottery Aid award of \$5,663,456 is approximately equal to what the City received during FY 2002.

The MMA is currently lobbying the Governor and the Legislature to stop the diversion of Lottery proceeds for State purposes.

Executive Budget

Summary Continued

City of Leominster

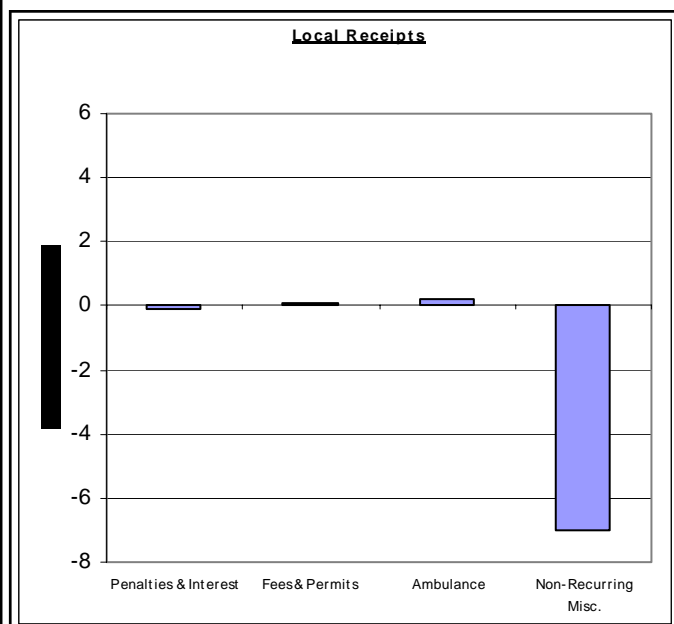
Local Receipts

With the continued economic slowdown has come a realization that local sources will not see much growth. Local vehicles tax money may not grow because the value of purchased are decreasing. Downsizing due to gas economy concerns and delaying purchases are two additional contributory factors.

Investment Income is expected to increase slightly because of rate increases but amounts to invest are expected to decrease in FY 2006 for various reasons.

The City of Leominster did not budget one-time revenues prior to the tax rate setting process since the City did not receive an additional lottery distribution similar to FY 2005.

Budget Chart 16



**This amount does not include interest costs related to the temporary loans outstanding related to the new middle school and the Southeast School renovation project. This will hopefully be paid for by the use of "Free Cash".

Expenditures

The budget chart on the following page illustrates the expenditure amounts by functional area in the City. The Miscellaneous category includes Group Health, Pension, Other Insurances, and Other expenditure categories.

Budget adjustments in the functional areas include the following:

General Government:

- Cost of Living adjustments funded
- Technology appropriation increased
- Expense funding restorations

Public Safety:

- Union settlements permanently funded
- Police Sergeant added
- Small expense funding restoration
- Responsible Indemnification expense appropriation

Education:

- Appropriation increase of \$1,123,318 (based upon Senate Budget).
- Preliminary school spending during FY2006 can be summarized as follows:
- Preliminary FY 2006 NSS requirement based upon Senate Budget . (\$1,384,917 Chapter 70 increase)

| | |
|----------------------------------|--------------------|
| Net School Spending Requirement* | \$50,055,173 |
| School Transportation | \$2,250,000 |
| School Debt Service | <u>\$3,555,305</u> |
| Total: | \$55,860,478 |

Executive Budget

Summary Continued

City of Leominster

Budget Table 4

| Functional Area | FY 2006 | FY 2005 | FY 2004 | FY 2003 | FY 2002 | FY 2001 | FY 2000 | FY 1999 |
|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| General Government | 2,348,021 | 2,137,752.32 | 2,024,898 | 2,175,738 | 2,068,243 | 1,930,584 | 1,892,981 | 2,493,920 |
| Public Safety | 12,382,045 | 11,267,559 | 10,921,058 | 11,172,585 | 10,872,913 | 10,139,399 | 9,666,025 | 8,834,092 |
| Education | 42,404,000 | 41,280,682 | 39,951,363 | 41,760,405 | 41,290,395 | 40,975,008 | 39,824,542 | 35,293,109 |
| Public Works | 4,469,462 | 4,315,061 | 4,157,508 | 4,366,108 | 3,978,045 | 3,751,522 | 3,716,045 | 3,150,924 |
| Human Services | 575,505 | 516,573 | 515,472 | 499,932 | 485,383 | 449,548 | 453,704 | 427,447 |
| Culture and Recreation | 1,298,494 | 1,238,512 | 1,171,226 | 1,151,200 | 1,139,323 | 1,055,934 | 993,293 | 913,341 |
| Debt Service | 3,942,095 | 3,981,020 | 4,059,533 | 3,052,102 | 3,109,010 | 3,140,540 | 3,127,125 | 3,202,605 |
| Miscellaneous | 15,968,314 | 14,111,541 | 12,403,942 | 11,663,387 | 10,754,554 | 9,645,131 | 8,560,657 | 8,859,136 |
| Other | 3,614,034 | 4,207,454 | 3,457,192 | 1,603,522 | 1,719,973 | 1,500,170 | 1,499,665 | 1,140,861 |
| Totals | 87,001,979 | 83,056,154 | 78,662,192 | 74,444,979 | 75,417,439 | 72,587,745 | 69,779,036 | 64,584,147 |

Executive Budget

Summary Continued

City of Leominster

Reserves

Public Works:

- Union Settlement funded
- Refuse Disposal expense increase funded

Human Services :

- COLA step increases funded
- Veteran Service benefits expansion

Culture and Recreation:

- Temporary Library Quarters
- Recreation Department increases

Debt Service:

- B.A.N.S. issues for School & Library
- Refunding of School Additions loan

Miscellaneous:

- Required increase in pension system contribution of \$853,235 (actuarial study not yet complete).
- Group Health Insurance increase of \$1,246,363

Actuarial valuations are being conducted for both the pension system and for Other Post Employment Benefits (OPEB). The actuarial studies will determine the present value amount of assets needed to pay for the benefits promised to current and future retirees. Studies will also allow strategies to be formulated to put the City in the position to be able to begin to make payments toward significant OPEB costs in the future.

- Property/Liability, Worker's Compensation increase of \$55,325
- Medicare Insurance increase of \$50,000

Fiscal Reserves

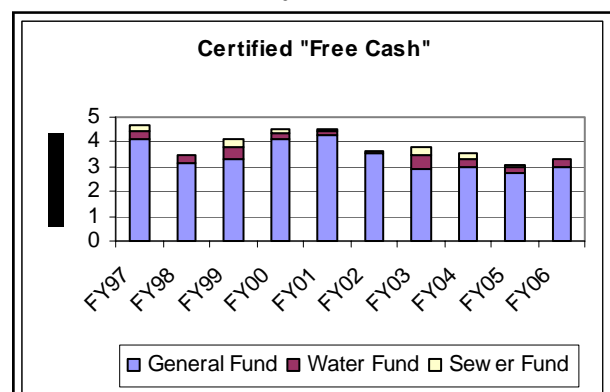
The City of Leominster has established reserve policies which will assist the City during all phases of the business cycle. Adherence and compliance to the existing targets and even updated targets requires significant discipline and political will to maintain the course during difficult economic times. The long term benefits of successful execution of the adopted reserve policies far outweigh any temporary cost of foregoing adherence to the well thought-out and reasoned fiscal reserve policies.

Free Cash

The State Certifies a portion of the City's surplus revenues as legally available for spending. The General Fund Fiscal Year 2006 certified "Free Cash" amount was \$3,327,754. The Water Department excess amount was \$314,626. The Waste Water Department portion was \$11,328 (both departments surplus closed to the General Fund per Ch. 44 sect. 53e requirements). The remaining \$3,001,800 represents 3.0% of the total amount to be raised during FY 2006 of \$100,182,685.

The City strives to achieve a minimum of 5% of the total amount to be raised of the next fiscal year for a "Free Cash" certified amount.

Budget Chart 17



Executive Budget

Summary Continued

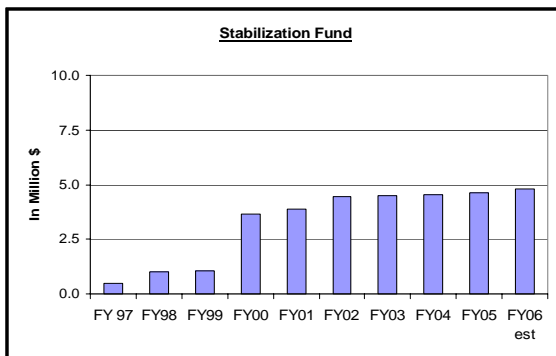
City of Leominster

Stabilization Fund

The City has wisely funded a Stabilization Fund to protect against revenue deficits. The 6/30/05 balance of \$4,644,655 represents 4.64 % of the Total Amount To Be Raised during Fiscal Year 2006 (\$100,182,685.21).

The City must grow its Stabilization Fund balance to 10% of revenues, all other reserves being equal, to begin to be competitive financially with municipalities of a similar bond rating throughout the nation.

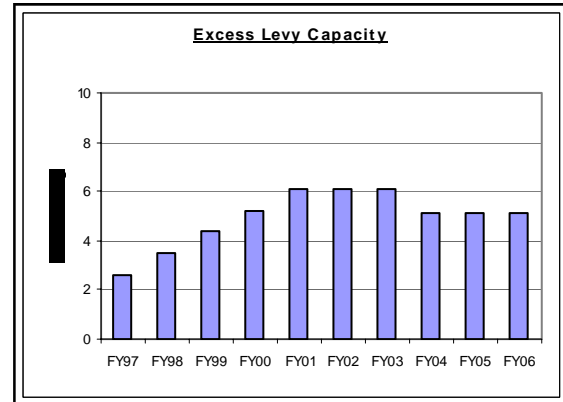
Budget Chart 18



Excess Levy Capacity

Excess Levy Capacity is the amount of a tax increase the City could raise on the tax levy in addition to the current year's Proposition 2 1/2 % increase before the need for an override. The City Council recently voted a Library expansion project that will further reduce the amount of Excess Levy Capacity available in the future. The cumulative excess levy capacity not levied on taxpayers during the past 10 years was \$49,443,617.

Budget Chart 19



Override Capacity

The ultimate tax levy ceiling under Proposition 2 1/2, is equal to 2 1/2 % of the total assessed valuation of the City of Leominster which is calculated annually.

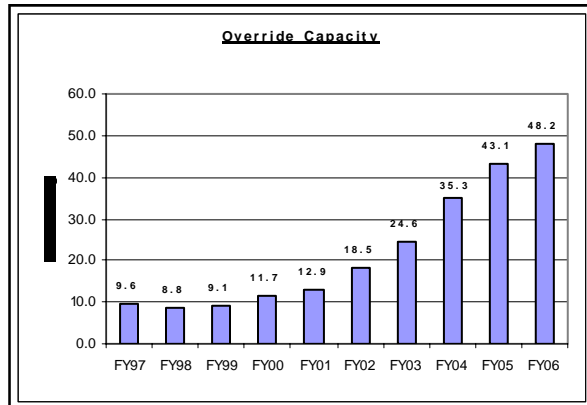
The total assessed valuation for the City of Leominster was \$3,756,035,400 for FY 2006 which translates to an \$93,900,885 ultimate tax levy ceiling. The FY 2006 Levy Limit of \$45,688,581 was calculated by taking the FY 2005 tax levy limit of \$43,429,875 and adding new growth of \$1,172,959 and the Proposition 2 1/2 allowed increase of \$1,085,747. The FY 2006 tax levy of \$40,527,622, along with excess capacity of \$5,160,959 equaled this FY 2006 Tax Levy Ceiling of \$45,688,581. The difference between the FY 2006 ultimate tax levy ceiling of \$93,900,885 and the FY 2006 tax levy limit of \$45,668,581 is equal to the FY 2006 tax override capacity of \$48,212,304. this override capacity also serves as a buffer of insulation against the City having to reduce the current year budget because of tax levy ceiling concerns (e.g. \$25.00 tax rate ; \$10.79 FY06 tax rate). The following chart shows the override capacity amounts for the past 10 years.

Executive Budget

Summary Continued

City of Leominster

Chart 20



This override capacity means that the voters of the City of Leominster could authorize permanent overrides, debt exclusions, or capital expenditures totaling \$48,212,304 for Fiscal Year 2006.

Other Reserve Funds

Emergency Reserve Account

This account is part of the General Fund Budget. The Fiscal Year 2006 Budget included \$100,000 for this purpose. This account is used for unexpected costs that arise during the fiscal year. The City does also use this account for unforeseen needs prior to certification of "Free Cash".

Highway State Aid Reserved Account

The State Chapter 90 Program funds expenditures related to approved highway projects. Appropriation requests are made by the Highway Department once the projects are approved and the money is available to be drawn on the State Letter of Credit Authorization.

Gallagher Building Revolving Fund

The Gallagher Building collects rents which is deposited into the account for operating and maintenance of the building. A certain amount is also provided to help defray the principle and interest payments related to the loan

taken out by the City to pay for capital improvements to the Gallagher Building.

Parking Meter Receipts

The City collects garage and meter fees for deposit into this fund. The proceeds are used for the expenses of the parking areas, the enforcement of parking regulations and for the collection process.

Wetland Fees Reserved

The Conservation Commission related fees collected are required to be placed into this fund. This fund has helped to pay for an administrator and administrative expenses related to the Conservation Commission.

Cemetery Perpetual Care Income

The purchase of a cemetery lot includes a fee for perpetual care of the lot. This fee is deposited into the Perpetual Care Trust Fund. Proceeds of this account are available to be used for cemetery operating purposes.

Cemetery Sale of Lots Income

The purchase price of a cemetery lot is deposited into the Cemetery Sale of Lots Trust Fund Principle Account. The investment income generated is available to be used for capital outlay purchases for cemetery related purposes.

General Fund Capital Investment Fund

The City of Leominster had special legislation passed to establish this fund for capital outlay purposes that would accumulate appropriations for multiple fiscal years in order to purchase a capital item. For instance, if a Fire Department engine was projected to cost \$400,000, the City could place \$100,000 per year into this fund for four years. The City has not recently utilized this fund but it is a good vehicle for capital outlay planning purposes.

The special legislation also allowed for the establishment of the same type of funds for both the Water and Waste Water Departments.

Executive Budget

Summary Continued

City of Leominster

Weights & Measures

The Weights & Measures Department has recently become authorized to levy fines for violations. The payments collected from these fines are required to be deposited into this fund. The proceeds are required to be utilized for Weights & Measures Department purposes.

Sale of Real Estate Fund

The proceeds of City owned property are required to be deposited into this fund. The use of these funds are restricted by statute.

Library State Aid Reserved

The proceeds are legally restricted for library related expenses. The City qualifies for this aid by meeting expenditure and operating hours requirements established by the State Board of Library Commissioners.

Budget Table 5 Other Reserve Funds

| Account | FY05 Beginning Balance | FY05 Inflows | FY05 Outflows | FY05 Ending Balance | FY06 Beginning Balance |
|---------------------------------|------------------------------|-----------------|------------------|---------------------------|------------------------------|
| Emergency Reserve Account | 100,000 | - | (99,513) | 487 | 100,000 |
| Chapter 90 Account | (28,197) | 46,827 | 110,250 | 91,620 | 91,620 |
| Gallagher Building Revolving | 246,211 | 249,519 | 189,659 | 306,701 | 306,071 |
| Parking Meter Receipts | 19,556 | 30,656 | (45,000) | 5,212 | 5,212 |
| Wetland Fees Reserved | 18,172 | 4,720 | 8,800 | 14,092 | 14,092 |
| Cemetery Perpetual Care | 1,251,480 | 39,364 | 64,779 | 1,226,065 | 1,226,065 |
| Cemetery Sale of Lots | 60,854 | 9,705 | - | 70,559 | 70,559 |
| General Fund Capital | 375 | - | - | 375 | 375 |
| Weights and Measures Fund | 550 | 950 | 1,023 | 477 | 477 |
| Sale of Real Estate Fund | 16,127 | 174,400 | 180,000 | 10,527 | 10,527 |
| Library State Aid | 9,428 | 65,246 | 51,500 | 23,174 | 23,174 |